SURREBUTTAL TESTIMONY OF

DAVID J. GARRETT

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2020-125-E

IN RE: APPLICATION OF DOMINION ENERGY SOUTH CAROLINA, INCORPORATED FOR ADJUSTMENT OF RATES AND CHARGES

I. INTRODUCTION

Q. STATE YOUR NAME AND OCCUPATION.

A. My name is David J. Garrett. I am the managing member of Resolve Utility Consulting, PLLC.

Q. DID YOU FILE DIRECT TESTIMONY AND EXHIBITS RELATED TO THIS PROCEEDING?

A. Yes. I filed direct testimony and exhibits with the Public Service Commission of South Carolina ("Commission") on November 10, 2020, on behalf of the South Carolina Office of Regulatory Staff ("ORS"). In my direct testimony, I addressed the Dominion Energy South Carolina's ("DESC" or the "Company") depreciation study. The Company's proposed depreciation rates are presented in the depreciation study, which are sponsored by Company witness John Spanos and discussed in his direct testimony. My qualifications also were discussed in my direct testimony.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. My surrebuttal testimony will respond to issues raised in the rebuttal testimony of Mr. Spanos.

Q. DID ANY OF THE ARGUMENTS RAISED BY MR. SPANOS IN HIS REBUTTAL TESTIMONY CAUSE YOU TO CHANGE YOUR POSITION AS STATED IN YOUR DIRECT TESTIMONY?

A. No. Additionally, to the extent I do not specifically address a statement made in any of the Company's rebuttal testimony that should not be construed as an agreement with such statement.

Q. PLEASE SUMMARIZE YOUR SURREBUTTAL TESTIMONY.

A. In reading Mr. Spanos's rebuttal testimony, it is clear that he disagrees with my opinions regarding the most appropriate depreciation rates for the accounts at issue. However, I do not believe he raised any new, significant issues not discussed in both of our direct testimonies. Thus, in my surrebuttal testimony, I will not repeat all of the arguments and points raised in my direct testimony; rather, I will reiterate a few important points in my response to Mr. Spanos's rebuttal testimony. In my surrebuttal testimony, I respond to two primary issues discussed in Mr. Spanos's rebuttal testimony: service life and net salvage.

II. SERVICE LIFE ANALYSIS

Q. PLEASE SUMMARIZE MR. SPANOS'S CRITICISMS OF YOUR APPROACH TO ESTIMATING SERVICE LIFE.

A. In his rebuttal testimony, Mr. Spanos suggests that my approach to estimating service lives relies "solely on mathematical solutions."[1] Mr. Spanos also indicates that my

[1] *See e.g.* Rebuttal Testimony of John J. Spanos, p. 10, line 10.

approach to estimating service lives is at odds with the National Association of Regulatory Utility Commissioners ("NARUC") depreciation manual.[2]

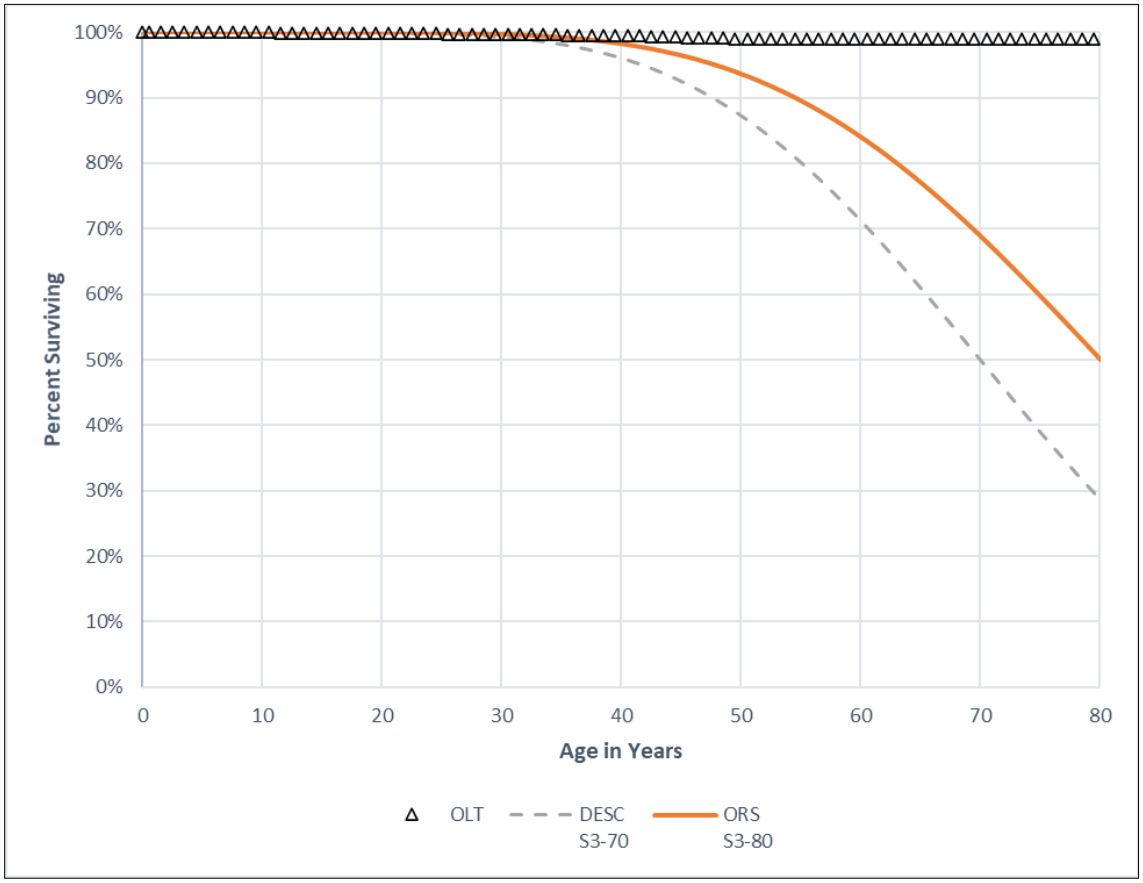
Q. DO YOU AGREE WITH MR. SPANOS'S CRITICISMS OF YOUR APPROACH TO ESTIMATING SERVICE LIVES?

A. No. First, I do not agree with Mr. Spanos's suggestion that my service life estimates are based solely on mathematical curve fitting. I will use my analysis for Account 369.1 (Underground Services) to illustrate this concept. The following graph is the same that was presented in my direct testimony for account 369.1. For this account, Mr. Spanos selected the S3-70 curve, and I selected the S3-80 curve. Both Iowa curves are shown in the graph below along with the observed life table ("OLT") curve.

[2] *Id*. at p. 10.

Figure 1:

Account 369.1 – Services – Underground

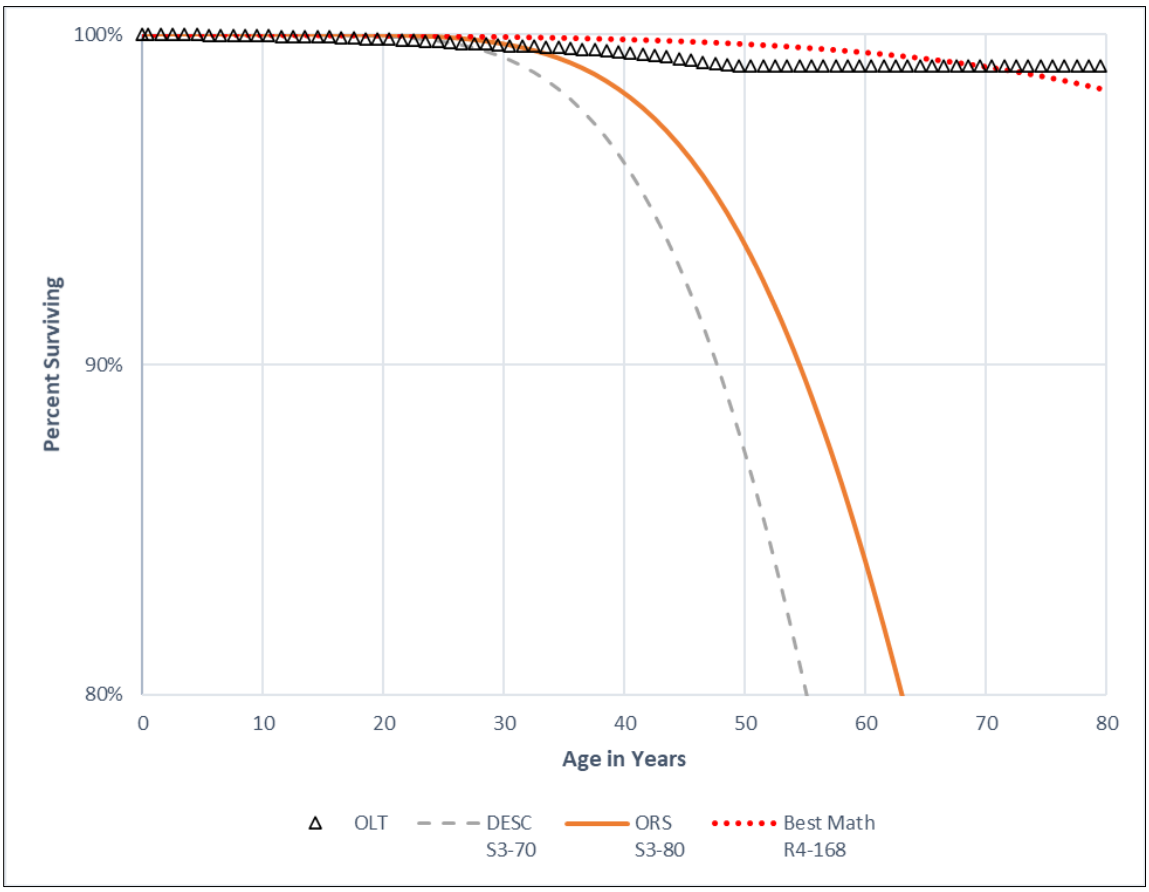


As discussed in my direct testimony, the S3-80 curve I selected is a better mathematical fit compared with the S3-70 curve. The Company bears the burden for this account (and all of its accounts) to make a convincing showing that its proposed depreciation rate (and thus proposed service life) is reasonable. As with the other accounts to which I propose service life adjustments, Mr. Spanos did not present any convincing evidence outside of the statistics (i.e., the data shown in this graph), as to why the S3-70 curve results in the most reasonable depreciation rate for this account. While the S3-80 curve I selected results in a *better* mathematical fit, it is not the *best* mathematical fit. The graph below shows the same

curves presented above (zoomed in for detail), but also with the R4-168 Iowa curve, which actually results in a much closer mathematical fit.

Figure 2:

Account 369.1 – Services Underground – With Best Mathematical Curve



If the R4-168 curve were selected for this account, it would be implying that the assets in this account, on average, would remain in service for 168 years. The reason I did not select the R4-168 curve for this account, despite it being the best mathematically fitting curve, is because, in addition to mathematical curve fitting, I also incorporate professional judgment and visual curve fitting techniques into my analytical approach. Often, the Iowa curve I select is *shorter* than the best mathematically fitting curve, which means that my

incorporation of professional judgment and visual curve fitting techniques actually leads to a *higher* depreciation rate and expense than what would have resulted if my estimates had been based *solely* on mathematical best fit curves.

Q. IS YOUR APPROACH TO ESTIMATING SERVICE LIVES IN CONFORMANCE WITH AUTHORITATIVE DEPRECIATION TEXTS?

A. Yes. I would generally agree that if a depreciation analyst simply selected the best mathematically fitting Iowa curve for each account without question, it would run the risk of being at odds with the preferred analytical approach described in the NARUC manual and other authoritative texts in the industry. Fortunately, however, I do not take such an approach, as demonstrated above. Like Mr. Spanos, I use a combination of visual and mathematical curve fitting techniques, along with professional judgment. While I do rely more on the mathematical results than Mr. Spanos does, for the reasons explained in my direct testimony, my opinions constitute a more reasonable balancing of mathematical fit, visual curve fitting, and professional judgment.

Q. MR. SPANOS ALSO CRITICIZES YOU USING THE 1% EXPOSURE THRESHOLD FOR TRUNCATION "SYSTEMATICALLY." DO YOU HAVE A RESPONSE?

A. Yes. It is true that I am generally consistent with my application of the 1% exposure threshold as a benchmark for truncation, including every account that I adjust in this case. However, there are instances where I will deviate slightly from this threshold when the shape of a particular Iowa curve suggests that the cutoff should be at a different age (e.g., where a noticeable decline or drop-off in the OLT curve exists). As discussed in my direct testimony, the 1% cutoff benchmark often leads to a more accurate analysis because data

points at the end of the OLT curve are often based on relatively fewer exposures. Authoritative depreciation texts agree that these tail-end data points may be given less weight than other data points on the OLT curve, which were based on larger exposures.

III. NET SALVAGE ANALYSIS

Q. PLEASE SUMMARIZE MR. SPANOS'S CRITICISMS OF YOUR NET SALVAGE ADJUSTMENTS.

A. Mr. Spanos disagrees with my adjustments to DESC's net salvage rates for its production plant accounts.[3] Particularly, Mr. Spanos disagrees with my proposed terminal net salvage rate and my weighting of interim and terminal retirements.[4]

Q. DO YOU AGREE WITH MR. SPANOS'S CRITICISMS OF YOUR NET SALVAGE RATE PROPOSALS?

A. No. It is the Company's burden to make a convincing showing that its proposed depreciation rates (and thus net salvage rates) are not excessive, and I believe the Company has failed to meet this burden with regards to its proposed net salvage rates for its generating units. If the dollar impact related to this issue were relatively minor, I could understand that the costs of conducting site specific decommissioning studies might not outweigh the benefits. However, I estimate this issue effects the annual depreciation accrual by at least $16 million. My adjustment related to this issue (which does not contemplate the complete elimination of terminal net salvage), is $12.8 million. Thus, the issue is significant. By failing to provide decommissioning studies, the Company did not

[3] *See generally* Rebuttal Testimony of John J. Spanos, pp. 36-45.

[4] *See id.*

adequately support its terminal net salvage rates. In my opinion, a reasonable course of action for the Commission would be to adopt the proposed -5% terminal net salvage rates I have proposed. In future cases, if decommissioning studies reveal that the terminal net salvage rates are higher or lower for some accounts, the rates can be adjusted accordingly at that time.

Q. WILL YOU UPDATE YOUR SURREBUTTAL TESTIMONY BASED ON INFORMATION THAT BECOMES AVAILABLE?

A. Yes. ORS fully reserves the right to revise its recommendations via supplemental testimony should new information not previously provided by the Company, or other sources, becomes available.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.